

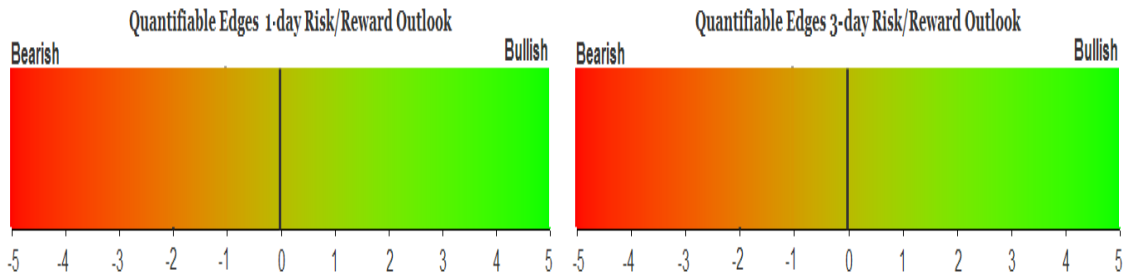
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 27, 2015

Volume 8 Issue 207

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Short

## Tonight's Research Points

- The unfilled gap and intraday price action suggest more selling could be on tap.
- Unfilled gaps down from intermediate-term high will frequently be followed by more selling.
- Tues-Fri after the 4<sup>th</sup> Fri in October has been seasonally bullish.

## *Short-term Outlook*

### *The Bottom Line*

Expectations have turned slightly bullish but the market is overbought, making for a neutral short-term outlook.

**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
October 27, 2015	Tues-Fri after 4th Fri in October bullish	1-4 days	Bullish			
October 27, 2015	Unfill gap dn from 10-high. Opn&cls high	1-3 days	Bearish	-1.50%	0.80%	1.80%
October 27, 2015	Unfilled gap up to 20-high then unfill dn	1 day	Bearish			
October 26, 2015	VIX up. SPX up. Friday.	1-3 days	Bearish			
October 23, 2015	Gap up. Close top 10% daily & 10-day	1-3 days	Bearish			
<b>Active - Long Term</b>						
October 26, 2015	NASDAQ leading SPX	int term	Bullish			
October 9, 2015	Zweig Breadth Thrust	1-20 days	Bullish			
October 6, 2015	SPX up 3+ days. Up Vol % > 90%	1-14 days	Bullish			
September 29, 2015	CBI >= 11	1-20 days	Bullish			
September 9, 2015	FTD on mild breadth & volume	int term	Bearish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
<b>Dropped Tonight</b>						
October 23, 2015	5-low to 10-high in 1 day	1-2 days	Bearish			
October 26, 2015	Mon after 4th Fri in October	1 day	Bearish			

**The Evidence**

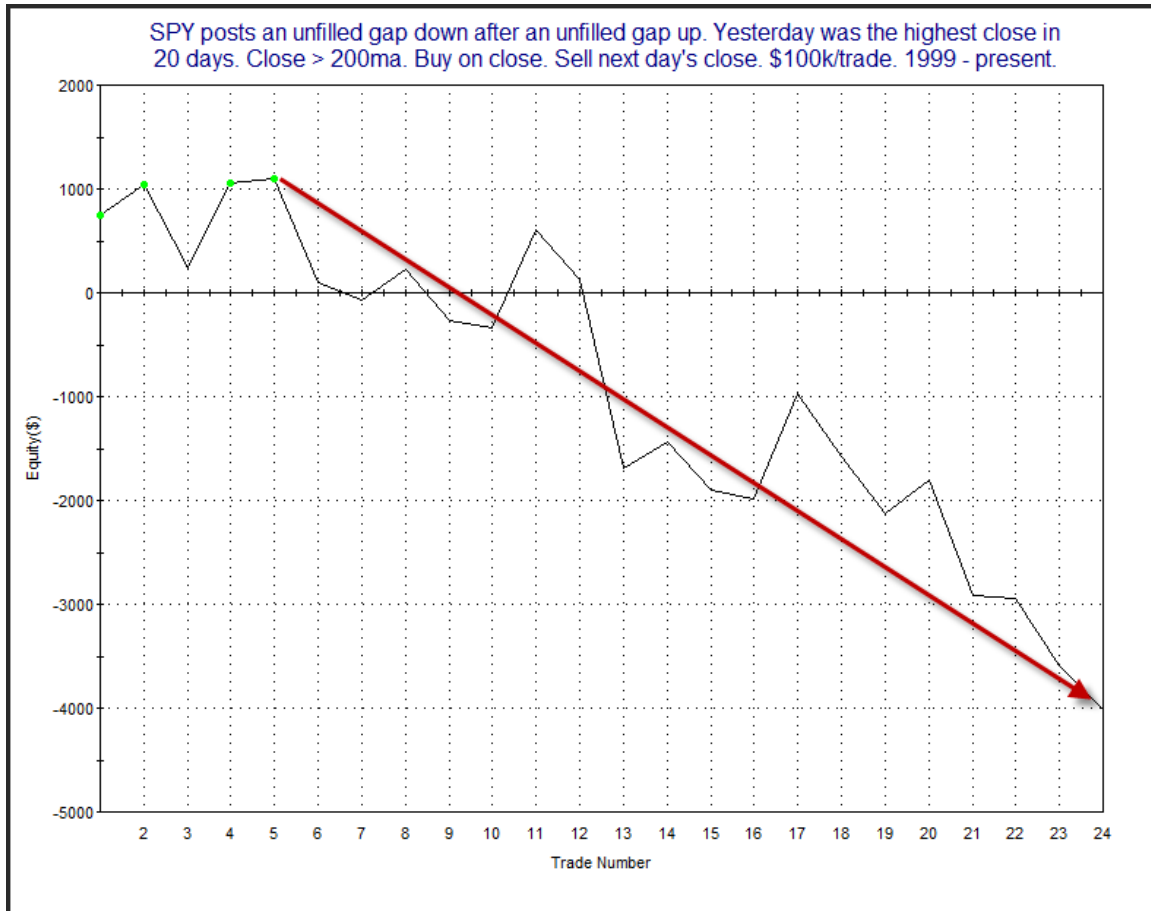
Monday was moderate and mixed. The SPX fell 0.2%, the NASDAQ gained 0.1%, and the Russell 2000 lost 0.6%. Breadth was negative as the NYSE Up Issues % came in at 38% and the Up Volume % was 34%. Total NYSE volume declined some from Friday's level.

There were a couple of studies in the Quantifinder that suggested the unfilled gap down and intraday action in SPY painted a negative short-term picture. This 1<sup>st</sup> study examined SPY performance after posting an unfilled gap down from a high level immediately after an unfilled gap up. It was last shown in the 7/8/14 Subscriber Letter. While the stats looked like there might be a multi-day edge, the 1-day profit curve was the only one that was somewhat consistent. So I updated the stats for that.

SPY posts an unfilled gap down after an unfilled gap up. Yesterday was the highest close in 20 days. Close > 200ma. Buy on close. Sell next day's close. \$100k/trade. 1999 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	(\$4,007.93)	Profit Factor		0.54
Gross Profit	\$4,731.07	Gross Loss	(\$8,739.00)	
Total Number of Trades	24	Percent Profitable		37.50%
Winning Trades	9	Losing Trades		15
Even Trades	0			
Avg. Trade Net Profit	(\$167.00)	Ratio Avg. Win:Avg. Loss		0.90
Avg. Winning Trade	\$525.67	Avg. Losing Trade	(\$582.60)	
Largest Winning Trade	\$1,008.68	Largest Losing Trade	(\$1,807.92)	

The numbers here still appear to suggest a moderate downside edge. Let's also take a look at the profit curve.



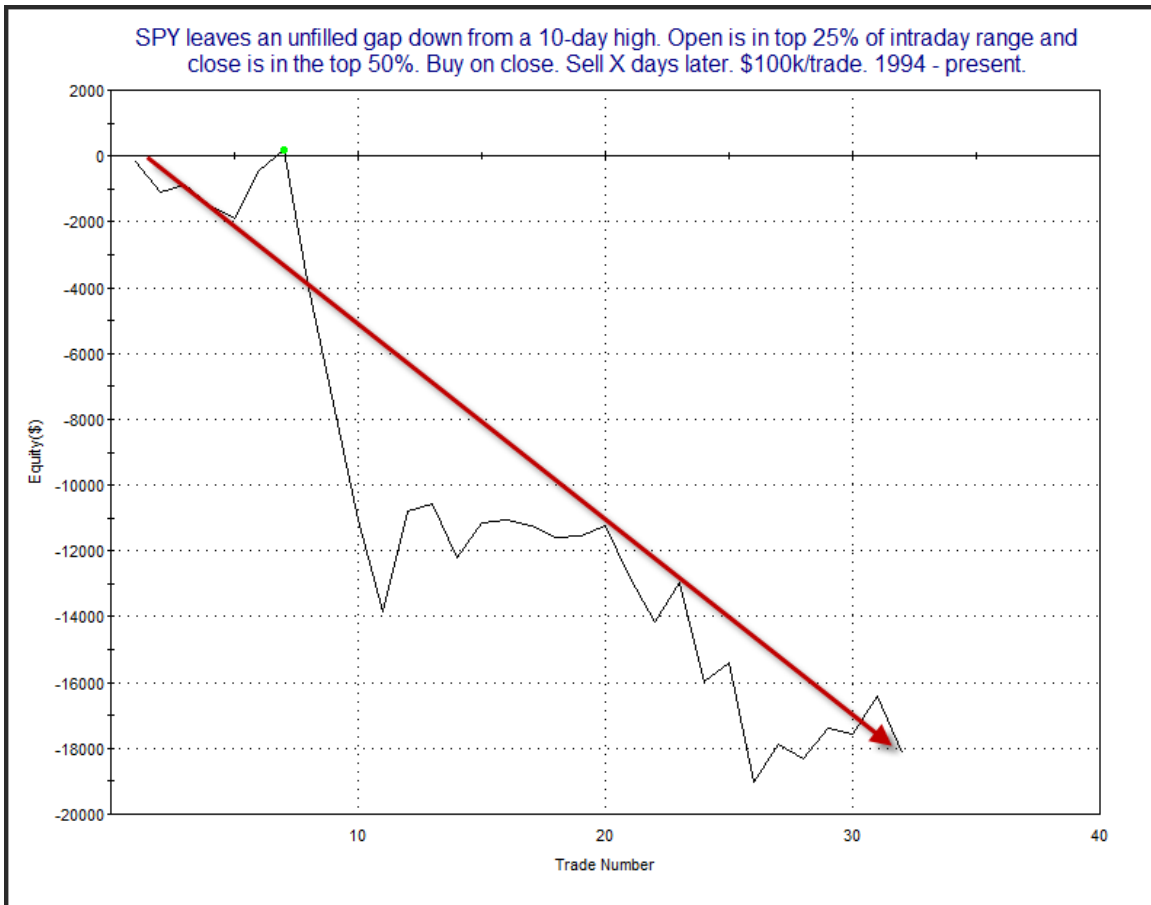
While the curve is very choppy, it has persisted downwards and is continuing to make new lows. This seems to act as some confirmation of the downside edge.

In addition to the unfilled gap down, SPY also managed to both open and close in the upper part of its daily range. This triggered the study below, which was last seen in the 11/5/14 subscriber letter. I have updated the results.

SPY leaves an unfilled gap down from a 10-day high. Open is in top 25% of intraday range and close is in the top 50%. Buy on close. Sell X days later. \$100k/trade. 1994 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-20,656.11	32	13	19	40.63	949.49	2,167.34	-1,736.82	-4,604.60	0.55	0.37	-645.50
4	-15,727.89	32	13	19	40.63	1,120.31	2,838.64	-1,594.31	-4,926.08	0.70	0.48	-491.50
3	-18,146.48	32	14	18	43.75	860.71	3,040.03	-1,677.58	-4,194.90	0.51	0.40	-567.08
2	-11,566.48	32	16	16	50.00	791.04	2,953.72	-1,513.94	-4,109.04	0.52	0.52	-361.45
1	-8,263.03	32	14	18	43.75	584.54	1,440.24	-913.70	-1,948.10	0.64	0.50	-258.22

When the gap goes unfilled and the open and close are in the upper end of the day's range as described above, inclinations appear to be quite bearish. Below is an equity curve using a 3-day exit strategy.



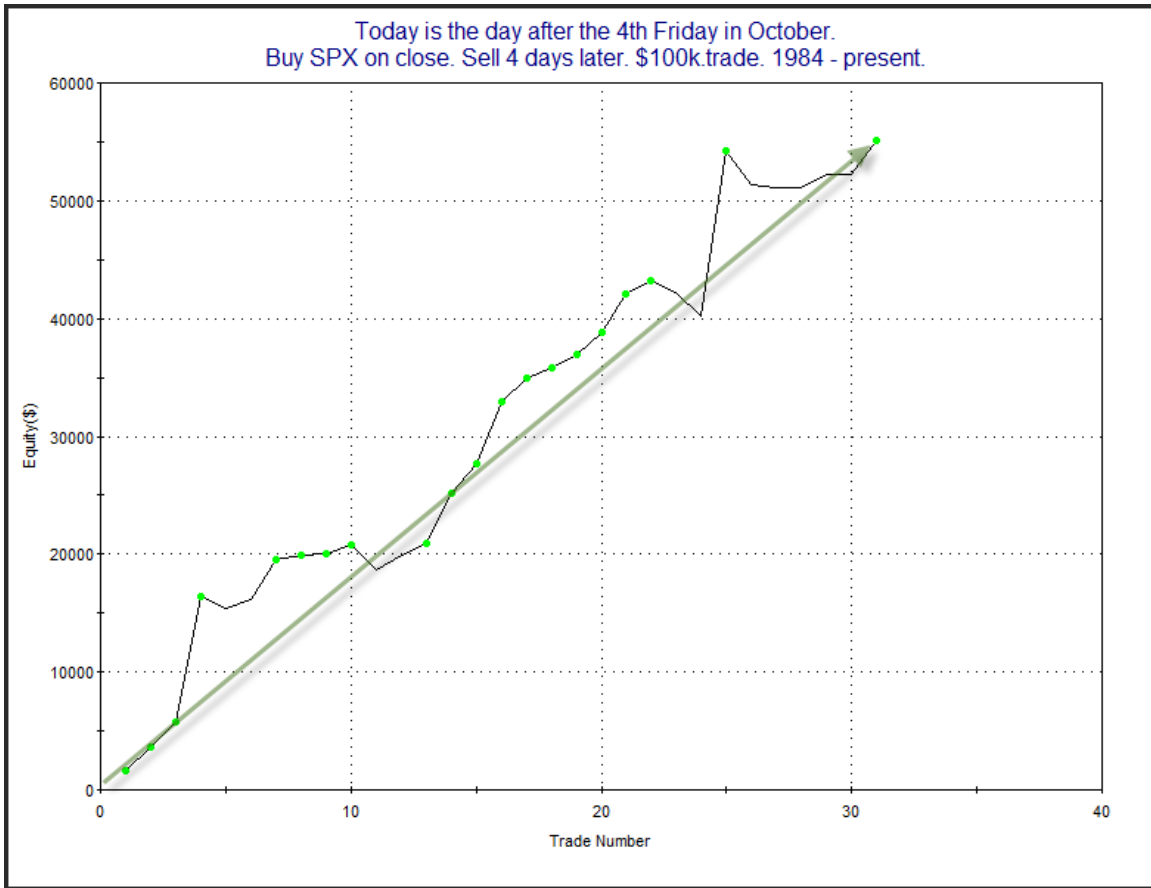
It's not the smoothest line, but it appears good enough to me to include the study on the Active List.

Of course the seasonality study I showed in last night's letter is now about to kick in. Below is an excerpt from that letter that shows that study.

*But Tuesday through Friday have much more positive seasonality. This can be seen below.*

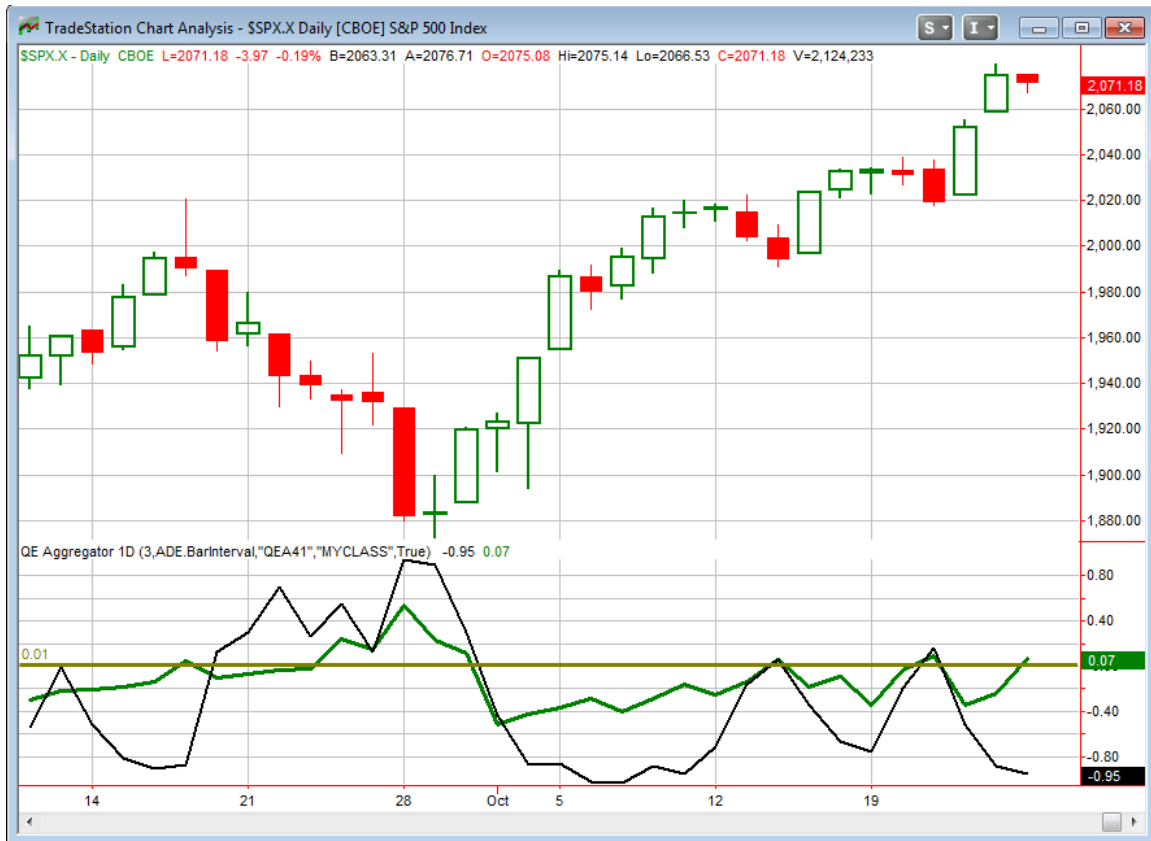
Today is the day after the 4th Friday in October. Buy SPX on close. Sell X days later. \$100k trade. 1984 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
4	55,074.95	31	23	8	74.19	2,792.36	14,020.11	-1,143.68	-2,860.68	2.44	7.02	1,776.61
3	45,904.06	31	24	7	77.42	2,113.70	12,304.89	-689.25	-2,081.28	3.07	10.51	1,480.78
2	25,314.33	31	24	7	77.42	1,379.76	9,496.89	-1,114.28	-2,261.76	1.24	4.25	816.59
1	22,642.64	31	21	10	67.74	1,524.15	10,716.03	-936.44	-2,766.58	1.63	3.42	730.41
<b>29 of 31 instances (94%) closed above the entry price at some point in the next 4 days.</b>												

*The stats here are very strong across the board and suggestive of an upside edge. Below is a look at the 4-day profit curve.*



*The curve has headed upwards for a long time and hit a new high again last year. Long-term seasonality is set to kick in as we enter the “Best 6 Months” period at the end of October. But this short-term look at seasonality suggests the market could have some wind at its back even a little earlier than that.*

I have updated the [Aggregator](#) chart below.



With seasonality trumping the gap studies the green Aggregator Line rose slightly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line stayed below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but the SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore the Aggregator signal changed from short to flat at the close.

Based on the current active studies expectations are slated to remain positive on Tuesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2046.23 on Tuesday. That is a 1.2% below Monday's close. This means that SPX would need to close down at least 1.2% to move from overbought to oversold versus expectation on Tuesday.

The Aggregator is back to neutral. We have a couple of studies tonight suggesting the unfilled down gap from the high level could lead to more selling. But the next few days are very bullish from a seasonal perspective. The net of it suggests a very mild bullish edge. Of course I would not consider taking a bullish trade with the market being so overbought for such an extended period. (Monday marked the 17<sup>th</sup> day in a row that SPX

closed above its 10-day moving average.) And the Aggregator also recognizes the overbought state. So I am neutral. And after covering my short position at Monday's close for a very modest gain, I am also flat and awaiting the next favorable trading opportunity.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 10/26 –slightly bullish***

The intermediate-term outlook was last updated in the 10/26/15 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

**Catapult and Capitulative Breadth Statistics**

*Catapult & CBI Presentation Link*

***Open Catapult Triggers***

*ABBV – 1/3 @ \$48.27(buy @ limit) – not filled – cancel order for now*

***Broad Market Large Cap CBI – 1(ABBV)***

### **Additional New Trade Ideas**

*A full listing of system triggers can be found at the [numbered systems page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.*

*None tonight.*

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>SPY(1/4)(s)</i>	<i>10/23/2015</i>	<i>\$207.25</i>	<i>\$206.99</i>	<i>0.13%</i>		<i>covered on close</i>

*Note: A full history of closed out trade ideas published in the Subscriber Letter since inception in 2008 can be found on the [QE Trade Ideas Results Sheet](#). It can be downloaded from the website at any time.*

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